



TO: Takoma Park City Residents
FROM: City Council

The City Council is currently considering whether or not to pursue additional bonding (a long-term loan) for the Community Center project. A public hearing will be held on Monday, January 10, 2005 to obtain the community's input on the bonding proposal. The purpose of this brochure is to provide you with information regarding the history and status of the project. We also wanted to answer some of your questions concerning cost overruns, as well as to communicate the financial implications of any bond issue for you as a resident of the City of Takoma Park.

How did the Community Center project get started?

Formal planning for the Community Center began in earnest in early 1999. Over the next four years, a collaborative community process took place to refine the final design of the project, with the goal of creating a place where residents of all ages and from all areas of the City could come together to play, learn, discuss, and create.

During the planning process, a master plan was developed. The plan described the community's vision for the Community Center project, which would be constructed in phases as funding became available.

At the conclusion of the process, the City Council approved a design that incorporated the Community Center into the existing Municipal Building. Administrative staff offices will be moved to the upper level, which will be locked overnight to save on security and heating/cooling expenses. This opens the main level for community use, with rooms for meeting, recreation, and the arts. The lower level will house the Police Department and will have its own entrance.

What was the original budget for the Community Center?

The first professional estimates for a full-scale community center came from Laurel Design Associates in 1999 and ranged from \$4.0 million (if built in an open area such as a park) to \$9.0 million (if built on the library site). In early 2001, the architectural firm of Larry Abell & Associates provided the first estimate for constructing the center as an "in-fill" project around the existing municipal building; the estimate was \$6.7 million.

While architectural drawings were prepared over the next two years, the City Council developed a \$7.0 million budget and secured funding in this amount from a variety of sources, including federal, state, and county grants. It was assumed the project's cost would increase somewhat as time passed; however, the costs escalated faster than expected. When bids were opened in early 2003, the lowest bid for the project exceeded \$11.0 million.

The project was then scaled back to match the \$7.0

million budget. The gym, underground parking, and a library façade were postponed to a later phase of the project for a savings of about \$3.5 million. Former City Manager Rick Finn then made additional cutbacks of about \$750,000 in a process known as "value engineering," taking out a landscaped promenade and other aesthetic and environmentally friendly features. At the start of construction in August 2003, the overall budget had been brought back to approximately \$7.0 million, which included other project-related costs such as architectural fees.

What is the current status of the Community Center project?

James F. Knott Construction Company, Inc. is currently constructing the Computer Learning Center (between the Municipal Building and the Library) and the front addition to the Municipal Building, and is renovating the upper level of the Municipal Building. The projected completion date for this portion of the project is late spring 2005.

The next stage of the project is the renovation of the main level of the existing Municipal Building for community space. A Request for Bids was issued in the summer of 2004, and two bids were received. There was a wide variance between the two bids (from \$568,000 to \$1,062,000). Because of the low number of bids and timing issues associated with the work currently being performed, the City's construction management consultant recommended that the City re-bid this portion of the project in the spring of 2005 with the goal of soliciting more bids and obtaining a lower overall cost.

How is the Community Center project being managed?

Large capital projects such as the Community Center construction are complex and require special expertise. A City staff member whose sole responsibility is construction-related matters handles the day-to-day oversight of the project. Other members of the project management team include the City Manager, the project architect, a construction management consultant, a construction scheduling expert, and legal counsel specializing in construction-related matters. Progress meetings are held every two weeks. The City Council receives weekly updates on the project from the City

Manager and Councilmember Bruce Williams, who serves as the City Council project liaison.

How is the project funded?

At this time, identified project revenues total about \$8.92 million. These funds came from the following sources:

- City Funds = \$4.06 million (Includes \$2.0 million from bond issued in 2002)
- State Funds = \$2.26 million
- County Funds = \$2.35 million
- Federal Funds = \$0.25 million

What are the projected costs for this phase of construction?

The work being performed by Knott Construction Company includes construction of the Computer Learning Center and the front addition to the Municipal Building and the renovation of the upper level of the Municipal Building. Projected expenditures for this work total about \$9.4 million.

Like most construction contracts, the contract with Knott Construction did not cover unforeseen expenses. As additional costs occur, the construction company proposes change orders, which are in addition to the cost of the contract. There are a number of proposed changed orders currently pending, totaling approximately \$1.0 million, which may be reduced through negotiation with the contractor and the City's architect. If the City were required to pay the full amount of all these items, the potential funding shortfall for this stage of construction, including the change orders, could be as much as \$1.5 million.

In addition, the renovation of the main level of the Municipal Building will be re-bid in the spring of 2005. The funding required for this project component is difficult to determine at this time because of the wide variance between the two bids previously received. The average of the two prior bids was \$815,000.

What is the projected funding shortfall for this phase of construction?

Based on the latest information, an additional \$2.3 million could be required to complete construction of the Computer Learning Center, the front addition to the Municipal Building, and the renovation of the upper and main levels of the Municipal Building. This includes \$1.5 million for the work currently done, plus an estimated \$815,000 for the renovation of the main level of the Municipal Building.

Why are costs higher than expected?

Four responsive bids for the Community Center project were received in early 2003. As noted earlier, these bids were much higher than anticipated. Be-

cause the City was not willing to commit to a scope of work that exceeded available funding, the project was scaled back to bring it in line with available resources.

The original amount of the City's contract with Knott Construction Company was about \$5.6 million. Once construction began, a series of unexpected site-related problems were identified that required costly mitigation. These included floodplain issues, unsuitable soil, and required rock excavation. Other changes to the contract with Knott Construction Company were the result of design modifications. Additionally, the City expanded the scope of the project to include the renovation of the upper level of the Municipal Building once additional funding had been secured.

The current amount of the City's contract with Knott Construction Company is approximately \$7.9 million. Additional costs in the amount of \$1.5 million include architectural fees, project consultants, and fees paid to various utility companies and to Montgomery County for permitting.

The remaining stage of Phase One involves the renovation of the main level of the Municipal Building. Using the average of the two prior bids (\$815,000), the City estimates that an additional \$2.3 million is needed to complete Phase One of the project.

What options are available to cover the funding shortfall?

One alternative that was considered was the use of the City's reserve funds that in part are maintained for unforeseen or emergency circumstances. The City Manager has recommended to the City Council that this source not be used.

Another way to cover some of the funding shortfall is to increase revenues or to reduce the City's operating expenditures. The City Council authorized a number of revenue increases and cost reductions, which will cover some of the funding deficit. To achieve a significant reduction in operating expenditures, however, the City would need to drastically cut back services.

The last funding option is additional bonding. Current interest rates enable municipalities to borrow money at a low cost. Borrowing also spreads the cost for capital projects that have a long, useful life over time so that the financial burden is not borne solely by current taxpayers. The City Council has agreed to consider further bonding.

What level of bonding is the City Council considering?

A \$2.5 million bond would likely be sufficient to pay for completion of this phase of construction. This level of bonding may also allow for some amenities that

are not currently funded, such as landscaping.

A \$5.0 million bond would likely allow for construction of a gymnasium in addition to completion of the current phase. The cost of the gymnasium will vary depending on such factors as utility relocations, exterior and interior finishes, architectural features, and parking solutions. The City was provided a high-end estimate of \$2.9 million from Knott Construction Company.

If the City were to pursue additional bond financing, how much would it cost me as a Takoma Park resident?

If the City Council chooses to go forward with additional bonding, there are several ways that the bonds could be paid back. One option is for the City to reduce the City's operating expenditures by the amount of the annual debt service payment. Another option is for the City to levy an additional property tax to generate the required funding. The City Council could also choose some combination of these methods.

The cost of additional bonding for the Community Center project would depend on the amount borrowed, the term of the bonds, and the interest rates at the time of the borrowing. The Maryland Local Government Finance Infrastructure Program provided the City with some bonding scenarios. Each scenario is based on the following assumptions:

- A bond term of 20 years
- Issuance costs = 3.25% of the loan amount
- Issuance costs would be added to the loan amount

The highest payment on the bonds would occur in the initial years of the 20-year period. Like a mortgage or other loan, interest costs will decrease over time as the principal amount is paid down and the annual payment on the bonds will be less. If property values increase over the 20-year life of the bonds, the tax rate needed to pay for the bonds would be further reduced.

The City's current tax rate is \$0.66 per \$100 of assessed valuation. The table below shows the initial impact of a \$2.5 million and a \$5.0 million bond, if the City increased the tax rate to pay for the bonds:

| Bond Amount | 1st Year Payment | Tax Increase | % Increase in Rate |
|---------------|------------------|--------------|--------------------|
| \$2.5 million | \$201,802 | \$0.0202 | 3.1 percent |
| \$5.0 million | \$385,156 | \$0.0385 | 5.8 percent |

For the owner of a home with an assessed valuation of \$500,000, the annual cost in the initial years would be about \$101 for a \$2.5 million bond and about \$193 for a \$5.0 million bond.

What is the next step in the process?

The application deadline for the Spring 2005 bond issuance through the Maryland Local Government Infrastructure Finance Program is January 28, 2005. Participation in the program requires a public hearing, which will be held on January 10. The required two readings of a City ordinance would take place on January 18 and January 25.

How can I make my opinion on this issue heard?

The City Council encourages all residents to voice their opinions on this important issue to the City of Takoma Park. One way to do this is to attend the public hearing on January 10, 2005. The hearing will get underway at 7:30 p.m. and will be held at the Municipal Building.

You can also mail, e-mail or phone in your comments to the Office of the City Clerk. That address is 7500 Maple Avenue, Takoma Park, MD 20912, and the e-mail address is clerk@takomagov.org. The phone number is (301) 891-7267.

And, of course, you can contact the Mayor or the Councilmember for your ward. Here's how to reach them:

Mayor Kathy Porter

(301) 270-8680 or portertakoma@verizon.net

Councilmember Joy Austin-Lane, Ward 1

(301) 270-6524 or JoyAustinLane@aol.com

Councilmember Heather Mizeur, Ward 2

(301) 270-8190 or heather@heathermizeur.com

Councilmember Bruce Williams, Ward 3

(301) 891-0728 or brwilli@aol.com (preferred)

Councilmember Terry Seamens, Ward 4

(301) 565-0190 or TJSeamens@aol.com

Councilmember Marc Elrich, Ward 5

(301) 587-2685 or marcelrich@pop.starpower.net

Councilmember Doug Barry, Ward 6

(301) 439-2140 or Dough@takomagov.org

Takoma Park's New Community Center..... Coming in 2005!



Voice Your Opinion!

PUBLIC HEARING ON COMMUNITY CENTER BOND PROPOSAL

January 10, 2005, 7:30 pm

City Council Chambers, 7500 Maple Avenue